IMAGING DYNAMICS COMPANY LTD.

Form 51-901F
Highlights
Management Discussion and Analysis
Financial Statements

FOURTH QUARTER REPORT 2001

Twelve months ended December 31

idc
imaging dynamics
company ltd.

#151,2340 Pegasus Way N.E.
Calgary, AB T2E 8M5

Tel: 403.251.9939
Fax: 403.251.1771

EMAIL:
info@imagingdynamics.com

WEBSITE:
www.imagingdynamics.com

QUARTERLY & YEAR END REPORT

BC FORM 51-901F

(Formerly Form 61)

BCSC

BRITISH COLUMBIA
SECURITIES COMMISSION (BCSC)

ISSUER DETAILS		DATE OF REPORT
NAME OF ISSUER IMAGING DYNAMICS COMPANY LTD.	FOR QUARTER ENDED DECEMBER 31, 2001	YY/MM/DD 05/17/01
ISSUER ADDRESS # 151, 2340 PEGASUS WAY N.E.		

CITY	PROVINCE	POSTAL CODE	ISSUER FAX NO.	ISSUER TELEPHONE NO.
CALGARY	AB	T2E 8M5	(403) 251-1771	(403) 251-9939

CONTACT NAME	CONTACT POSITION	CONTACT TELEPHONE NO.
KARIM TEJA	SENIOR V.P. AND CFO	(403) 251-9939

CONTACT EMAIL ADDRESS	WEB SITE ADDRESS
kteja@imagingdynamics.com	www.imagingdynamics.com

CERTIFICATE

The three schedules required to complete this Report are attached and the disclosure contained therein has been Approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.

DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED YY/MM/DD
"signed"	JOHN T. RAMSAY	05/17/01
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED YY/MM/DD
"signed"	DARRYL STEIN	05/17/01

INCORPORATED AS PART OF:

	Yes	No
Schedule A:	[X]	[ ]
Schedule B:	[X]	[ ]
Schedule C:	[X]	[ ]

SCHEDULE B: SUPPLEMENTARY INFORMATION

1. **Analysis of expenses and deferred costs:**
   See Financial Statements

2. **Related party transactions**
   See Financial Statements

3. **Summary of Securities issued and options granted during the period:**

a) Summary of securities issued for the quarter ending December, 2001

Date	Purpose	Shares	Price ($)	Proceeds ($)	Consideration	Commission ($)
	None for the period					

*Notes:
(1) Shares are indicated as post consolidation figures.

b) Summary of stock options granted during the quarter:

Date	Type of Options	Shares Granted	Exercise Price ($)	Expiry Date	Date Approved
12/11/01	Consultant	24,000	0.93	11/20/2006	11/28/01

4. **SUMMARY OF SHARE CAPITAL, STOCK OPTIONS, WARRANTS, CONVERTIBLE DEBENTURE SECURITIES AND SHARES HELD IN ESCROW AT DECEMBER 31, 2001**

a) Authorized Capital:	Unlimited
Par Value:	N.P.V.
b) Issued and outstanding:	10,952,951 Common Shares
Share Capital:	$16,361,783

c) Schedule of Stock Options Outstanding:

Description	Shares	Price ($)	Amount ($)	Expiry Date
Directors Options (1)	10,000	1.85	18,500	01/09/2002
Director and Consultant Options (1)	141,666	1.00	141,666	12/31/2003
Employee Options (1)	3,340	2.00	6,680	11/24/2004
Employee Options (1)	26,000	2.40	62,400	11/24/2004
Officer Options (1)	36,000	2.40	86,400	11/24/2004
Director Options (1)	20,000	7.65	153,000	06/01/2004
Director and Officer Options (1)	103,320	3.90	402,948	11/24/2002
Employee Options (1)	3,000	2.00	6,000	05/01/2005
Employee Options (1)	7,000	2.00	14,000	08/01/2005
Consultants Options (1)	70,000	7.20	504,000	08/10/2005
Employee Options (1)	840	2.00	1,680	08/15/2005
Employee Options (1)	1,800	2.00	3,600	12/04/2005
Employee Options (1)	17,000	2.00	34,000	02/01/2006
Consultant Options (1)	600	3.15	1,890	02/21/2005
Employee Options (1)	1,200	2.00	2,400	02/26/2006
Employee Options (1)	3,000	2.00	6,000	04/02/2006
Consultant Options (1)	8,000	2.20	17,600	06/22/2006
Employee Options (1)	36,000	2.00	72,000	06/01/2006
Director & Officer Options (1)	284,000	2.00	568,000	06/01/2006
Consultant Options (2)	24,000	0.93	22,230	11/20/2006
	796,766			

***Notes:** (1) Shares are indicated as post consolidation figures.
(2) Shares granted post consolidation.

Schedule of Share Purchase Warrants:

Description	Shares	Price ($)	Amount ($)	Expiry Date
Private Placement (2)	158,032	10.95	1,730,450	06/22/2002
Warrants (2)	404,375	6.50	2,628,437	12/31/2002
Broker Warrants (2)	80,875	4.00	323,500	04/20/2003
Broker Warrants (2)	117,500	2.00	235,000	07/22/2003
Broker Warrants (2)	57,500	2.00	115,000	08/31/2004

***Notes:**

(1) On November 2, 2001, the company completed a consolidation of the Corporation's issued and outstanding common shares on a one (1) (new) for five (5) (old) basis. The consolidation triggered a corporate name change from Imaging Dynamics Corporation to Imaging Dynamics Company Ltd.

(2) Shares are indicated as post consolidation figures.

Schedule of Convertible Debenture:

Description	Shares	Price ($)	Amount ($)	Expiry Date

None for the period reported

d) Shares Held in Escrow or Subject to a Pooling Agreement:

1,080,000 common shares

5. Directors and Officers as at December 31, 2001:

Directors

Michael J. Baker	Seattle, WA
Richard M. Barno	Boston, MA
John T. Ramsay, Q.C.	Calgary, AB
Douglas A. Street	Calgary, AB
Michael B. Decter	Toronto, ON
Denis O'Connor	Seattle, WA

Officers

Karim Teja	Calgary, AB
Gregory E. Peterson	Calgary, AB

YEAR 2001

Operational Highlights

Corporate Profile

Imaging Dynamics Company Ltd. manufactures the Xplorer system, an affordable, efficient high–resolution digital radiography detector and diagnostic image management system that eliminates the need for film in general radiographic imaging. IDC believes that its product provides a price-to-performance ratio superior to competitive products. IDC's common shares trade on the Canadian Venture Exchange under the symbol "IDL."

Detailed information on Imaging Dynamics can be found at http://www.imagingdynamics.com.

The following summarizes some of the key highlights during the year.

Imaging Dynamics Commences Product Shipment

On November 4, 2001, Imaging Dynamics shipped its first commercial Xplorer 1700 from its outsourced manufacturer, Altman Browning and Company. The unit was delivered to Prince George Hospital in British Columbia and is currently being used for clinical diagnosis. 3 additional units were shipped in Q1 2002

Imaging Dynamics Books Revenues

The Corporation recognized almost $160,000 of revenues in the year. The Corporation's focus continues to be on supporting the technology in the existing sites before additional sales are booked. Achieving reference-able, luminary sites is a critical pre-requisite to an aggressive sales and marketing program.

Imaging Dynamics Receives Over Subscription on Financing Activities

Despite significant uncertainties in the capital markets, on July 23, 2001 the Company issued 5,875,000 Common Shares resulting in gross proceeds of $2,350,000. Furthermore, due to continued interest by the investment community and the potential for an over-subscription, on August 23, 2001, the Corporation amended the prospectus to increase the maximum offering to 8,750,000 ($3,500,000). On August 31, 2001, the Corporation had fully subscribed and successfully closed the entire increased offering. Additionally, subsequent to year end, in February 2002, the Corporation issued an additional 2,270,794 shares for gross proceeds of $1,476,015.

Imaging Dynamics Passed Significant Resolutions at the AGM

At the AGM held on October 10, 2001, among other resolutions passed, the shareholders approved an extension to the period of escrow in respect of the Escrowed Shares, voted in favor of the proposed 5 for 1 consolidation and approved the implementation of a shareholder rights plan.

The AGM authorized the Company to extend the term of the escrow under the Performance Escrow Agreement dated June 10, 1996 for a period of three years from June 10, 2001. In connection with the share consolidation, the CDNX policy requires that the Corporation's name be changed. The name of the Corporation was changed to "Imaging Dynamics Company Ltd." A new trading symbol "IDL" was also issued. The shareholder rights plan was implemented to provide the Board of Directors and shareholders of the Company with sufficient time to evaluate a take-over bid and, if appropriate, to pursue alternatives with a view to maximizing shareholder value. The Rights Plan also seeks to ensure that all shareholders are treated fairly in any transaction involving a change in control of the Company and have an equal opportunity to participate in the benefits of a take-over bid.

YEAR 2001

Management Discussion & Analysis

Schedule C:

Results of Operations

The Corporation booked its first significant revenues of almost $160,000 during the year compared to $282,780 for the same twelve month period last year. Last year's revenues were the result of recognition of deferred consulting fees and sale of the Xplorer 1000. The Corporation has discontinued the 1000 series based on beta site evaluation and feedback and has now deployed the Xplorer 1700 as its "go to market" product. In addition to the revenues booked, the Corporation has received partial pre-payment of orders in the amount of $89,888, which was booked to deferred revenue. Net losses for the year amounted to $7,110,271 or $0.74 per share compared with a loss of $4,774,001 or $0.62 per share in fiscal 2000.

The research and development costs were higher, $1,965,551 for the twelve months of 2001 compared to $1,723,465 for the same period last year; an increase of $242,086. Even though the research and development efforts within the Xplorer 1700 hardware is nearing completion, significant costs were incurred to develop the acquisition workstation software, graphic user interface and anatomy algorithms.

As the Corporation readies itself for production and manufacturing, many one time costs were incurred during 2001. These costs amounted to $1,600,112 compared to $nil last year. The increase was a result of incurring one time tooling and consulting costs as well as non-recurring software and production engineering and design costs.

General and administrative expenses were 26% lower than last year, $1,499,604 versus $2,042,802. This was the result of personnel reduction in management and administrative support staff, reorganizing the U.S. operations and reducing ongoing infrastructure support costs.

Sales and marketing expenses increased by $476,243 from $1,191,472 to $1,667,715 in 2001 compared with 2000. The increased sales and marketing expenses reflect the continuing efforts in identifying marketing personnel and implementing programs to accelerate product sales, expand product awareness, attend trade shows and develop North American market opportunities.

Depreciation and amortization increased by $114,668, from $133,760 to $248,428, in 2001. This increase is largely attributable to the depreciation of capital and intangible asset additions by Imaging Dynamics including the building, leasehold improvements and technical and office equipment.

In total, operating expenses increased $1,947,973 from $5,115,574 to $7,063,547 in the year ended December 31, 2001 compared with the year ended December 31, 2000. The increased costs were primarily a result of increased one-time production and manufacturing costs, increased expenditures related to software development and sales and marketing expenditures partially off set by lower general and administrative costs.

The Corporations interest and other income was lower by $37,264 as a result of lower interest rates. The foreign exchange loss was a $32,411 in 2001 compared to a $2,874 gain in 2000. The difference is due to the weaker Canadian dollar.

The Corporation also wrote down the book value of its facilities and some office equipment to reflect the lower market value of these assets. Additionally, the Corporation moved to a different Charged Coupled Device (CCD) camera design and as such the goodwill carried from the CSE Imaging Inc. acquisition in 2000 was written off.

The future income taxes for fiscal 2001 is $nil compared with $71,087 for fiscal 2000. Management adopted the conservative approach to recognizing future income tax benefits. As such, the potential of income tax benefits of the losses carried forward, the investment tax credits and the scientific research and experimental development expenditures have not been recognized in the 2001 financial statements.

Cash Flow Applied to Operations

The Corporation used cash resources of $6,707,614 in 2001 compared to $4,835,282 in 2000, an increase of $1,872,332. This was the result of increased non-cash working capital requirements, one-time production and manufacturing costs, increased expenditures related to software development and sales and marketing expenditures partially off set by lower general and administrative costs.

The non-cash working capital requirements increased as the Company has begun production and manufacturing resulting in a substantial increase in inventory levels from $145,683 as of year-end 2000 to $2,488,998 as at December 31, 2001. This increase was partially offset by an increase in payables and deferred revenue and a slight decrease in the receivables during the same period. Additionally, the Corporation secured a shareholder loan in the amount of $450,000. The loan bears interest of 5% per annum payable upon maturity.

The Corporation also paid off $133,112 in debt and lease obligations including a $72,212 repayment of a cost sharing agreement as well as $40,000 residual note payable to a related party for the purchase of the Corporation's patent. The Corporation also acquired capital assets during the first six months in the amount of $329,491. This compares to last years investment of $1,508,762. Acquisition of additional space, primarily financed through a $64,000 mortgage, and the purchase of computer and lab equipment were the main acquisitions related to this year's expenditure whereas last year's high capital expenditures was related to the purchase of IDC's office building and laboratory facility which was partially funded through a mortgage of $570,000.

From a financing perspective, the Corporation raised, net of expenses, $3,976,407 during fiscal 2001 as compared to $7,093,449 for the same period last year.

kpmg

Consolidated Financial Statements of

IMAGING DYNAMICS COMPANY LTD.

Years ended December 31, 2001 and 2000

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Imaging Dynamics Company Ltd. as at December 31, 2001 and 2000 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Calgary, Canada
February 1, 2002 (except for note 18
which is as at May 10, 2002)

IMAGING DYNAMICS COMPANY LTD.

Consolidated Balance Sheets

December 31, 2001 and 2000

	2001	2000
Assets		
Current assets:		
Cash and cash equivalents (note 4)	$ 134,384	$ 2,814,194
Accounts receivable	86,466	140,171
Inventory	2,488,998	145,683
Prepaid expenses and deposits	51,141	38,669
	2,760,989	3,138,717
Long-term deposit (note 5)	200,000	200,000
Capital assets (note 6)	1,421,541	1,484,523
Goodwill (note 7)	–	84,333
	$ 4,382,530	$ 4,907,573
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,479,688	$ 412,343
Due to shareholder (note 8)	450,000	–
Due to related company (note 8)	–	40,000
Deferred revenue	89,888	–
Current portion of obligations under capital lease (note 9)	5,715	5,524
Current portion of loans payable (note 10)	163,936	85,068
	3,189,227	542,935
Obligations under capital lease (note 9)	–	5,715
Loans payable (note 10)	600,211	702,667
Shareholders' equity:		
Share capital (note 12)	16,361,783	9,990,698
Special warrants (note 13)	–	2,323,978
Deficit	(15,768,691)	(8,658,420)
	593,092	3,656,256
Future operations (note 1)		
Commitments (note 17)		
Subsequent events (notes 8 and 18)		
	$ 4,382,530	$ 4,907,573

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

John Ramsay "signed" Director

Darryl Stein "signed" Director

IMAGING DYNAMICS COMPANY LTD.

Consolidated Statements of Operations and Deficit

Years ended December 31, 2001 and 2000

	2001	2000
Sales	$ 159,738	$ 282,780
Expenses:		
Research and development	1,965,551	1,723,465
Production and manufacturing	1,600,112	–
General and administration	1,499,604	2,042,802
Sales and marketing	1,667,715	1,191,472
Interest on long term debt	49,726	26,949
Depreciation	197,141	126,093
Amortization	51,287	7,667
Foreign exchange loss (gain)	32,411	(2,874)
	7,063,547	5,115,574
Interest and other income	92,616	129,880
Write down of goodwill (note 7)	(103,746)	–
Write down of capital assets	(195,332)	–
Loss before income taxes	7,110,271	4,702,914
Future income taxes (note 11)	–	71,087
Net loss	7,110,271	4,774,001
Deficit, beginning of year	8,658,420	3,884,419
Deficit, end of year	$15,768,691	$ 8,658,420
Loss per share, basic and diluted (note 14)	$ (0.74)	$ (0.62)

See accompanying notes to consolidated financial statements.

IMAGING DYNAMICS COMPANY LTD.

Consolidated Statements of Cash Flows

Years ended December 31, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Net loss	$(7,110,271)	$(4,774,001)
Items not involving cash:		
Depreciation and amortization	248,428	133,760
Write down of goodwill	103,746	–
Write down of capital assets	195,332	–
Shares issued for services	–	181,160
Future income taxes	–	71,087
	(6,562,765)	(4,387,994)
Changes in non-cash working capital:		
Accounts receivable	53,705	(101,898)
Prepaids and deposits	(12,472)	78,064
Inventory	(2,343,315)	(145,683)
Accounts payable and accrued liabilities	2,067,345	(59,803)
Deferred revenue	89,888	(217,968)
	(6,707,614)	(4,835,282)
Financing activities:		
Issue of common shares for cash, net of costs	3,976,407	4,769,471
Issue of warrants for cash, net of costs	–	2,323,978
Advance on shareholder loan	450,000	–
Capital lease obligations	(5,524)	(7,546)
Due to related party	(40,000)	565,523
Advance on loans payable	64,000	50,000
Repayment of loans payable	(87,588)	(20,000)
	4,357,295	7,681,426
Investing activities:		
Purchase of capital assets	(329,491)	(1,508,762)
Long-term deposit	–	(200,000)
	(329,491)	(1,708,762)
Increase (decrease) in cash and cash equivalents	(2,679,810)	1,137,382
Cash and cash equivalents, beginning of year	2,814,194	1,676,812
Cash and cash equivalents , end of year	$ 134,384	$ 2,814,194

See accompanying notes to consolidated financial statements.

Company organization and operations:

The Company holds a patent (previously through a Technology License Agreement) for affordable high-resolution x-ray systems. This technology, marketed under the brand name Xplorer 1700, produces diagnostic quality images digitally. Its purpose is to replace the need for film and chemical film processing as well as the storage and retrieval costs normally associated with traditional x-ray technology.

Effective October 11, 2001 the Company changed its name from Imaging Dynamics Corporation to Imaging Dynamics Company Ltd.

1. **Future operations:**

   These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations.

   In 2001, the Company has incurred losses of $7,110,271 and used cash resources of $6,707,614 to support operating activities. Subsequent to year end the Company raised $1,476,015 (note 18) pursuant to a private placement. The Company has engaged an agent to assist the Company in raising additional capital. There can be no assurance that the present and longer-term cash requirements of the Company will be satisfied either from revenues from operations or from future financings. If the Company is unable to successfully secure adequate or satisfactory financing as required, there is the possibility that the Company may be unable to continue to realize its assets and to discharge its liabilities in the normal course of business.

   If the going concern assumption were not appropriate for these financial statements, adjustments would be necessary to the carrying value of assets and liabilities, and to the balance sheet classifications used.

2. **Significant accounting policies:**

   The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from estimates.

   (a) Basis of presentation:

   The consolidated financial statements include the accounts of the Company and its subsidiary, which is wholly owned.

2. Significant accounting policies (continued):

(b) Cash and cash equivalents:

Cash and cash equivalents consist of deposits in banks, redeemable deposits and short-term investments with maturities of three months or less.

(c) Inventory:

Inventory is stated at the lower of cost and net realizable value.

(d) Capital assets:

Capital assets are recorded at cost and are depreciated over their estimated useful lives at the following annual rates:

Patent	10 years straight-line
Technical, lab and computer equipment	30% declining balance
Office equipment	20% declining balance
Building improvements	10% declining balance
Buildings	4% declining balance

(e) Goodwill:

Goodwill represents the excess of the purchase price over the fair values of net assets acquired and is being amortized on a straight-line basis over three years. On an ongoing basis, management reviews the valuation and amortization of goodwill, taking into consideration any events and circumstances which might have impaired the fair value. Goodwill is written down to fair value when declines in value are considered to be other than temporary based upon expected cash flows.

(f) Revenue recognition:

Revenue is recognized when the equipment is delivered and installed, customer acceptance provisions are met and collection is reasonably assured.

Revenue with respect to the performance of services is recognized when the services are performed and collection is reasonably assured.

2. Significant accounting policies (continued):

(g) Research and development:

Research costs are expensed as incurred. Development costs are expensed unless they meet certain criteria related to technical, financial and market feasibility, in which case they are deferred. There were no significant costs which meet the deferral criteria at December 31, 2001 and 2000.

(h) Foreign currency:

The monetary assets and liabilities of the Company which are denominated in foreign currencies are translated at the year end exchange rates. The non-monetary assets and liabilities are translated at the transaction date exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains or losses are recognized currently in earnings.

(i) Stock-based compensation plan:

The Company has a stock-based compensation plan which is administered by the Board of Directors. No compensation expense is recognized for this plan when stock or stock options are issued. Any consideration paid on exercise of stock options or purchase of stock is credited to share capital.

(j) Income taxes:

The Company uses the liability method of accounting for income taxes. Under the liability method, current income taxes are recognized for the estimated income tax payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and the benefit of losses and other deductions carried forward for tax purposes that are more than likely to be realized. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

3. Business acquisition:

Pursuant to an agreement dated October 2, 2000 the Company purchased the assets of CSE Imaging Inc., a camera design and production company, for total consideration consisting of 500,000 common shares at $1.01 per share. The 500,000 common shares issued pursuant to the acquisition were to be held in escrow and released based on the achievement of performance milestones specified in the acquisition agreement. At December 31, 2000, 100,000 shares had been released for a total consideration of $101,000 of which $92,000 was allocated to goodwill. During the year ended December 31, 2001, a further 70,000 of the common shares were released, for consideration of $70,700 which was reflected as goodwill. The remaining shares were returned to treasury when the Company was released from the agreement. The acquisition was accounted for by the purchase method and the purchase price has been allocated as follows:

Capital assets	$ 9,000
Goodwill	162,700
	$ 171,700

4. Cash and cash equivalents:

The Company considers deposits in banks, redeemable deposits and short-term investments with original maturities of three months or less as cash equivalents. The major components of cash and cash equivalents are as follows:

	2001	2000
Cash on deposit	$ 134,384	$ 189,923
Redeemable deposits bearing interest at 6%	–	2,624,271
	$ 134,384	$ 2,814,194

5. Long-term deposit:

Long-term deposit is a redeemable deposit of $200,000, bearing interest at 6% and maturing in 2005. The redeemable deposit is held as security for the mortgages described in note 10 and is redeemable to the extent specific conditions are met.

6. Capital assets:

December 31, 2001	Cost	Accumulated depreciation and amortization	Net book value
Digital x-ray technology patent	$ 32,001	$ 4,800	$ 27,201
Technical, lab and computer equipment	884,726	317,791	566,935
Office equipment	191,761	66,356	125,405
Building improvements	198,090	28,723	169,367
Land and buildings	769,666	237,033	532,633
	$ 2,076,244	$ 654,703	$ 1,421,541

December 31, 2000	Cost	Accumulated depreciation	Net book value
Digital x-ray technology patent	$ 1	$ –	$ 1
Technical, lab and computer equipment	434,489	175,376	259,113
Office equipment	443,055	63,525	379,530
Building improvements	198,090	9,905	188,185
Building	671,116	13,422	657,694
	$ 1,746,751	$ 262,228	$ 1,484,523

Included in computer equipment are assets under capital lease in the amount of $15,025 (2000 - $21,200) with related accumulated amortization of $12,093 (2000 - $8,830).

7. Goodwill:

	2001	2000
Cost	$ 162,700	$ 92,000
Less: Accumulated amortization	(58,954)	(7,667)
Less: Write down	(103,746)	–
	$ –	$ 84,333

The Company changed to a different Charged Coupled Device ("CCD") camera design and as such the goodwill carried from the CSE Imaging Inc. acquisition in 2000 was written down to $nil.

8. Related party transactions:

(a) The shareholder loan of $450,000 (2000 - $nil) bears interest at 5% per annum and is payable on demand. This amount is secured by a general security agreement over the assets of the company.

Subsequent to year end an additional $150,000 was advanced under the same terms.

(b) Promissory note of $nil (2000 - $40,000) due to a company indirectly controlled by a director of the Company. The amount was unsecured, non-interest bearing and was due within two weeks of the Company completing an aggregate financing in excess of $2,000,000.

(c) During the year, the Company paid $251,303 (2000 - $126,000) to companies controlled by an officer and director for consulting, administration and research and development expenses incurred on behalf of the Company.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. Obligations under capital leases:

The Company has entered into a lease agreement for equipment. At December 31, 2001 the future minimum lease payments under capital lease are as follows:

2002	$	6,224
Less: amount of representing interest		(509)
		5,715
Less: current portion		5,715
	$	–

10. Loans payable:

	2001	2000
Mortgage on property, bearing interest of 8.35%, repayable in blended monthly payments of $4,900	$ 553,487	$ 565,523
Unsecured loan, non-interest bearing and payable in annual instalments equal to the lesser of 5% of gross sales or $25,000 per annum	147,000	150,000
Mortgage on property, bearing interest at a floating rate, currently 5.9%, repayable in blended monthly payments of $537	63,660	–
Pursuant to a Technology and Applications Development Project Agreement dated May 29, 1997, the Company received cost sharing contributions of $76,843.	–	72,212
	764,147	787,735
Less: current portion	163,936	85,068
	$ 600,211	$ 702,667

The above unsecured loan has been presented as current as the loan is in default due to the Company not making its scheduled repayments.

Scheduled principal repayments on the fixed rate mortgage for each of the five years subsequent to December 31, 2001 are as follows:

2002	$ 14,174
2003	15,320
2004	15,321
2005	9,723

11. Income taxes:

The income tax expense differs from the amounts which would be obtained by applying the expected income tax rate of 42.12% (2000 - 44.62%) as follows:

	2001	2000
Computed "expected" tax recovery	$ (2,994,846)	$(2,098,440)
Non deductible items	1,483	2,175
Non tax based amortization	–	3,421
Unrealized benefit of future tax assets and federal rate reduction	2,993,363	2,163,931
	$ –	$ 71,087

11. Income taxes (continued):

The components of the Company's future income tax assets at December 31, 2001 are as follows:

Future assets:	
Capital assets	$ 82,404
Share issue costs	159,971
Non capital losses	5,485,508
	5,727,883
Valuation allowance	(5,727,883)
	$ –

The Company has non-capital losses for income tax purposes in Canada of approximately $11,390,000 which are available to be applied against future years' taxable income. These losses will expire as follows:

2002	$ 57,500
2003	560,000
2004	299,800
2005	374,300
2006	612,700
2007	4,570,600
2008	4,630,900
	$11,105,800

As at December 31, 2001, the Company has net operating losses for income tax purposes in the United States of approximately $284,200. These losses will expire in 2021.

As of December 31, 2001, the Company has $3,172,275 (2000 - $3,000,000) undeducted scientific research and experimental development expenditures available for income tax purposes.

As at December 31, 2001, the Company has approximately $682,176 (2000 - $656,000) of federal investment tax credits available for income tax purposes. The investment tax credits can be utilized to reduce federal income taxes payable and expire between 2005 and 2010.

The potential income tax benefits of the losses carried forward, the investment tax credits and the scientific research and experimental development expenditures have not been recognized in these financial statements as their ultimate realization is uncertain.

12. Share capital:

(a) Authorized:

An unlimited number of:

Common shares

Non-voting redeemable preferred shares without demand or par value and which do not deem an entitlement to dividends.

(b) Common shares issued:

	2001		2000	
Common shares issued	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	41,786,107	$ 9,990,698	35,114,886	$ 4,939,067
Issued for cash	8,750,000	3,500,000	2,898,984	4,528,455
Issued for cash on exercise of warrants	4,043,750	2,971,021	1,812,500	209,150
Issued for services rendered	–	–	123,837	181,160
Issued on exercise of options	514,900	142,152	1,335,900	300,782
Issued on acquisition of assets (note 3)	–	70,700	500,000	101,000
Returned to treasury (note 3)	(330,000)	–	–	–
Share issue costs	–	(312,788)	–	(268,916)
Stock consolidation (i)	(43,811,806)	–	–	–
Balance, end of year	10,952,951	$ 16,361,783	41,786,107	$ 9,990,698

(i) Effective October 10, 2001 the Company consolidated issued and outstanding common shares on a one for five basis.

(c) Warrants:

(i) In conjunction with the new issue financing during 2001, the Company issued 175,000 Broker Warrants to its Agent entitling the Agent to acquire 175,000 common shares at $2.00 per share. The Broker Warrants are exercisable at any time until August 31, 2003.

(ii) In conjunction with a private placement dated June 2000, the Company issued 158,032 warrants entitling the holders to acquire 158,032 common shares at $10.95 per share. The warrants expire June 22, 2002.

12. Share capital (continued):

(d) Stock option plan:

The Company has established a stock-based compensation plan for its directors, officers, consultants and employees and has granted options to purchase 796,766 common shares at exercise prices equal to the market value of the shares at the date of grant. The options vest over various periods of up to 3 years.

	2001		2000	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	3,378,212	$ 0.90	3,334,912	$ 0.35
Granted	1,895,000	0.41	1,379,200	1.51
Exercised	(514,900)	0.28	(1,335,900)	0.23
Cancelled	(894,480)	1.62		
Balance, pre consolidation	3,863,832	$ 0.58	3,378,212	$ 0.90
Stock consolidation	(3,091,066)	–	–	–
Issued post consolidation	24,000	0.93	–	–
	796,766	$ 2.67	3,378,212	$ 0.90

Exercise price	Options outstanding	Weighted average contractual life (years)	Weighted average exercise price	Options exercisable	Weighted average exercisable price
$0.93 to $1.85	175,666	2.61	$ 1.04	153,666	$ 1.05
$2.00 to $2.40	427,180	4.26	2.06	419,180	2.06
$3.15 to $3.90	103,920	0.92	3.90	103,920	3.90
$7.20 to $7.60	90,000	3.92	7.30	76,667	7.24
	796,766		$ 2.67	753,433	$ 2.64

13. Special Warrants:

The numbers of warrants and shares stated below are prior to the one for five stock consolidation that occurred October 10, 2001 (note 12).

On April 18, 2001 the Corporation obtained a Decision Document evidencing the issuance of final receipts by the regulators for the Corporation's prospectus dated April 16, 2001. The prospectus qualified for distribution 4,043,750 common shares and 2,021,875 warrants issuable upon exercise of Special Warrants previously issued on December 20, 2000 and March 1, 2001.

(a) In March 2001 the Company issued 875,000 Special Warrants for $0.80 per Special Warrant resulting in gross proceeds of $700,000 (net proceeds – $647,043). Each Special Warrant entitled the holder to one common share and one half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share on or before December 31, 2002 at a price of $1.30 per share. These Special Warrants became qualified for distribution effective April 18, 2001.

In conjunction with the issue of special warrants the Company issued 87,500 broker warrants to its Agent entitling the Agent to acquire 87,500 common shares at $0.80 per share. The Broker Warrants are exercisable at any time until April 20, 2003.

(b) In December 2000 the Company issued 3,168,750 Special Warrants for $0.80 per Special Warrant resulting in gross proceeds of $2,535,000 (net proceeds - $2,323,978). Each Special Warrant entitled the holder to one common share and one half of one Share Purchase Warrant. Each whole Share Purchase Warrant entitles the holder to purchase one common share on or before December 31, 2002 at a price of $1.30 per share. The exercise price per common share is subject to adjustment in certain circumstances. These Special Warrants become qualified for distribution effective April 18, 2001.

In conjunction with the issue of Special Warrants, the Company issued 316,875 Broker Warrants to its Agent entitling the Agent to acquire 316,875 common shares at $0.80 per share. The Broker Warrants are exercisable at any time until April 20, 2003.

14. Loss per share and change in accounting policy:

The loss per share for 2001 has been calculated based on the weighted average number of common shares outstanding of the Company for the year of 9,650,279 (2000 – 7,747,603). The prior year loss per share has been restated to take into account the consolidation of shares on a one for five basis.

Effective for 2001, the Company retroactively adopted the treasury method for the calculation of diluted earnings per share. Under this method, the proceeds of the exercise of options are considered to be used to reacquire common shares at an average share price. Previously additional earnings were imputed based on the proceeds resulting from the exercise of options. As a result of this change in accounting policy, there has been no change in the diluted earnings per share for the comparative year ending December 31, 2000.

15. Financial instruments:

The Company's financial instruments consist of cash, term deposits, accounts receivable, accounts payable, accrued liabilities, loans payable, and due to related company. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risk arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

16. Comparative figures:

Certain of the comparative figures have been restated to conform with the current year presentation.

17. Commitments:

(a) The Company is committed to payments under operating leases for office equipment approximately as follows:

2002	$ 27,261
2003	3,831

(b) The Company has committed to pay U.S. $180,000 in 2002 for software licenses.

(c) The Company has committed to pay a minimum of U.S. $120,000 for software sub-licenses within 18 months of software acceptance.

18. Subsequent events:

(a) Effective February 19, 2002 the Company issued 2,270,794 Units at $0.65 each under a private placement raising $1,476,015 before costs. Each Unit is comprised of one common share of the Company and one quarter of one warrant. Each full warrant will entitle the holder to purchase one common share exercisable at $1.00 at anytime up to eighteen months after closing of the offering.

18. Subsequent events (continued):

(a) Subsequent to year end the Company entered into a sale and leaseback agreement. Land and buildings, including building improvements, and equipment were sold for $792,000. The Company committed to leaseback certain of these premises and equipment for two years at a cost of $32,500 per year plus operating costs.

(b) On May 9, 2002 the Company entered into an agreement with Research Capital for a proposed equity offering of $1.5 million Units of the Company. The offering is to consist of 1,500 Units at a price of $1,000 per Unit. Each Unit is to be comprised of 1,000 common shares, a $550 principle amount of convertible debenture and 2,100 common share purchase warrants. The offering will be marketed by way of a prospectus.